

THE MICROENTERPRISE PROMISE: CREATING OPPORTUNITIES FOR LOW-
INCOME INDIVIDUALS IN EUGENE, OREGON AND ADJACENT RURAL
COMMUNITIES

By

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TERMINAL PROJECT

Presented to the Department of Planning, Public Policy & Management
of the University of Oregon
in partial fulfillment of the requirements
for the degree of
Master of Public Administration

June 2008

“THE MICROENTERPRISE PROMISE: CREATING OPPORTUNITIES FOR LOW-INCOME INDIVIDUALS IN EUGENE, OREGON AND ADJACENT RURAL COMMUNITIES” a terminal project prepared by SANDRA MACÍAS DEL VILLAR in partial fulfillment of the requirements for the Master of Public Administration degree in the Department of Planning, Public Policy and Management. This project has been approved and accepted by:

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ABSTRACT

Microfinance is dedicated to the provision of financial services to low-income individuals including women, minorities, disabled individuals and vocational rehabilitation clients, among others. Since the 1980s, Microenterprise Development Programs (MDP) in the United States have provided a variety of microfinance services to many low-income urban and, primarily, rural individuals across the country to own or sustain their very small business, also called a microenterprise. Oregon is, remarkably, a microenterprise state. Businesses with fewer than five employees are responsible for 18% of the overall employment in the state, and microenterprises have experienced important growth in recent years. Through the use of a focus group and a series of in-depth interviews, this study analyzes the self-reported experiences of 25 former clients of Lane MicroBusiness (LMB), a MDP located in Eugene, Oregon.

Findings suggest that, after obtaining services provided by LMB, respondents agree these services helped start, sustain or grow their business. The services provided are a step up the ladder that helps to, potentially, overcome income stability and eventually creates a path to success. Some of the benefits experienced include: increased knowledge, business plan creation, increased profits, as well as higher self-esteem and stability. On the other hand, some of the challenges faced include: lack of time, dissatisfaction with training and grant accessibility. In addition, an overwhelming majority of the participants did experience a “business outcome”, created an “income patching effect” and showed an interest to increase social capital and group interaction while desiring an increase in one-on-one interactions with LMB staff.

ACKNOWLEDGEMENTS

First and foremost, I would like to extend my gratitude to the staff at Lane MicroBusiness without whom this project would not have been possible, particularly to its Executive Director Shawn Winkler-Rios for his continued guidance, patience and extremely valued help through this process. I would also like to thank Leah Murray, Nicki Nelson and Jennifer Teehan, also from Lane MicroBusiness, for their advice and assistance. I hope this study provides helpful input and accurately represents the incredible efforts you do everyday.

I would also like to thank my committee Michael Hibbard and Cassandra Moseley for their valuable input, support and guidance. I would especially like to thank Mike for his good advice, time, positive support and patience.

I would also like to thank my parents Daniel and Sandra and my wonderful siblings, Mariana and Danielito, and my friends for their love, compassion and unconditional support, especially Rafael Rodriguez for keeping me afloat throughout these two years and for his invaluable tolerance, listening and editing.

Lastly, I would like to thank all of my PPPM colleagues and the University of Oregon for the great memories and for the incredible graduate school experience.

DEDICATION

I would like to dedicate this work to my mom, Sandra Soledad del Villar Lazcano, the most amazing woman I now. I could not have accomplished all I have without her strength, wisdom and the courage she provides me everyday. Thank you for being my best friend, my confidant, my sun and my reason for being. ¡TE AMO NANI!

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CHAPTER 1

PROBLEM STATEMENT

Introduction

It is widely known, and almost intrinsic to the public sector, that social and economic policy implementation is dependent on a country's current political atmosphere. As a result, the majority, if not all, of social services that have the potential to help millions of lives have the unlucky fate of being continuously hanging on a thread. Fortunately, the microfinance¹ field has advocates from both the political left and right ideologies. It supports entrepreneurship and market development which appeals to many supporters on the political right, while its emphasis on social justice and poverty alleviation gains support from the political left (Schubert, 2004). So, what is microfinance and what makes it appealing across the ideological spectrum?

Over the years, the working poor have been deprived of opportunities to step out of the poverty cycle by being denied access to financial services by the traditional commercial banking sector. The main reason for rejection has been the lack of collateral that banks rely on in order to provide a loan, the most typical and sought after financial service for the poor. The recognition that the poor are capable of making significant contributions to their communities along with the reduction of entry barriers to business

¹ The terms "microfinance" and "microenterprise" are often used interchangeably. This paper will use "microfinance" as the field that provides financial services to low-income individuals and "microenterprise" to refer to the actual product or micro business as a result of the services provided by microenterprise programs.

ownership have become possible by what is known as the worldwide microfinance movement (Bhatt and Tang, 2001). In simple terms, microfinance is an array of financial services provided to low-income individuals to help them rise out of poverty. These services include small credit loans (also known as microcredit), Individual Development Accounts (IDA), and business and technical training that enable individuals to create, sustain or grow their own small business project (also called a microenterprise). In the United States, a microenterprise is defined as a small business with fewer than five employees that requires an initial capital of \$35,000 or less (AEO, 2005). Microenterprise development helps microentrepreneurs combine their knowledge and determination with microfinance services to attain a decent standard of living and generate income through business ownership.

In the international realm, governments, nonprofit organizations, community and development agencies have targeted microenterprise development by viewing it as one of the most sustainable paths to local economic growth, employment creation and poverty reduction (Eversole, 2003). The widely held recognition of the benefits of microfinance is further supported by the tumultuous economic period that our society is currently facing, thus opening the doors for small business ownership around the world. In the United States alone, hundreds of communities and individuals are already feeling the economic forces that push and pull individuals into business ownership. These include: declining number of middle-class jobs, increased outsourcing and use of temporary workers, the aging of the population, the rise in the cost of living, the decline of rural communities and the growing need to balance work and family roles, among others. These key drivers have led to the increase of microfinance programs around the nation (Edgecomb and Klein,

2005). These factors and the success stories of microfinance programs abroad have inspired growth in the number of US microfinance programs from almost none in the 1980s to more than 340 in 1999 and over 500 in present times (Schreiner, 2002). These programs cater to underserved populations that not only lack the financial resources to grow or expand a microenterprise, but who also face obstacles to mainstream financial and business development services. In the United States these populations include minorities, people with disabilities, public assistance recipients, women, immigrants and refugees. As long as the previously mentioned economic factors continue to dominate the landscape, it is imperative to consider microfinance as a financial cushion to those in need.

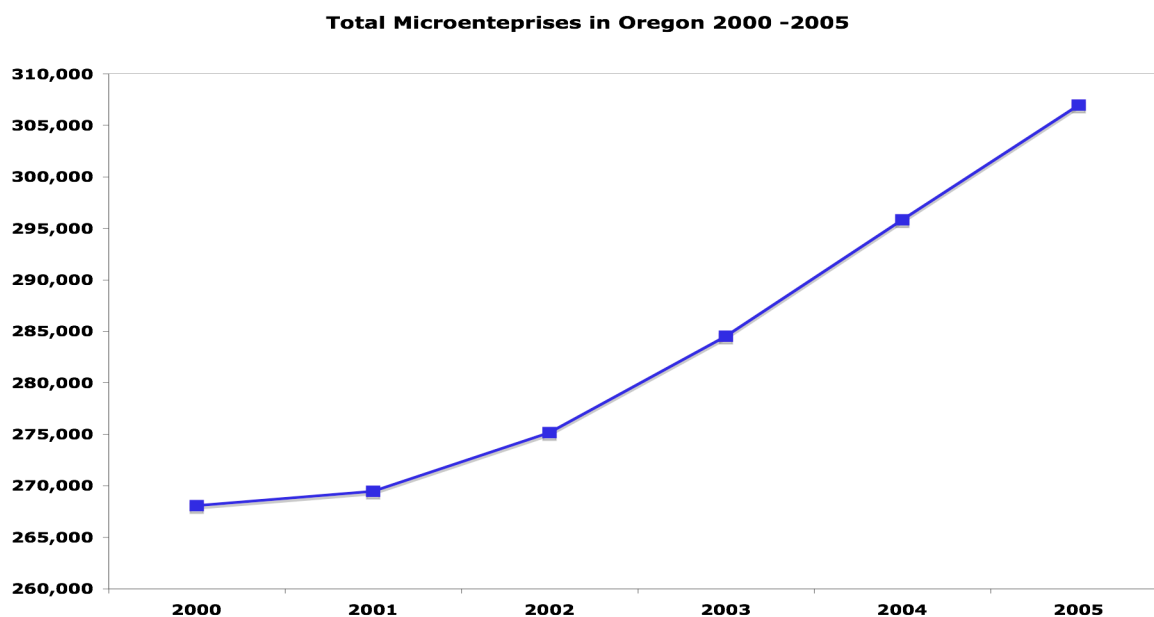
The popularity of microfinance in the United States has shown an upward trend in the last two decades and it is expected to continue to rise given the state of the economy and the variety of research projects that have proved its effectiveness. *Microenterprise and the Poor*, a study by the Aspen Institute, shows that 72% of poor microentrepreneurs in the United States increased their household income over five years (Clark and Kays, 1999). In addition, an analysis of the US microenterprise industry by the International Labor Organization (ILO) estimates that the return on investment in microenterprise development ranges from \$2.06 to \$2.72 for every dollar invested, making this tool not only efficient but also cost effective (AEO, 2005). The importance of this industry cannot be overestimated, particularly because of the safety net provided to its clients. Thus, it is important to continue to learn about its effects on clients and their overall experience, particularly in states with small economies where there is a greater incidence of underserved populations.

The Context and Scope of Microenterprise Programs in Oregon

The 2005 American Community Survey reports that the poverty rate in Oregon has increased by 2.5% from the levels reported in the Decennial Census of 2000, moving from 11.6% to 14.1% (US Census, 2005). In addition, the Oregon Center for Public Policy reports that while the typical Oregon household income was down \$1,362 from 2002 – 2003, it has fallen \$4,365 in inflation-adjusted dollars since 1999 – 2000 (Sheketoff, 2005). Overall the median income level saw a decline during the period of 2002 to 2005 and thus Oregon ranks 4th out of 50 states in terms of the decline in national household incomes. In addition, many of Oregon's top industries such as timber are in peril, but thanks to micro and small businesses around the state the job loss has not been as great as it otherwise would (US Census, 2008).

Oregon is a microenterprise state. According to the Association for Enterprise Opportunity (AEO), businesses with fewer than five employees are responsible for 18% of overall employment in Oregon (AEO, 2005). In addition, in rural parts of the state, one in five jobs is attributable to microenterprises. As shown in the graph below, the amount of microenterprises in the state has been steadily increasing, with an estimated 15% increase from 2000 – 2005.

Figure 1: Annual Microenterprise Growth in Oregon from 2000 – 2005



Source: Association of Enterprise Opportunity, 2005

Microentrepreneurs are key players in the Oregon economy. The Statistics of US Businesses of the Census Bureau from 2003 – 2004 show that microenterprises in Oregon, of one to four employees, created 13,900 jobs, while larger businesses of more than 500 employees lost 7,513 jobs. By taking into account job creation of businesses of all sizes in this same year, Oregon gained a total of 16,162 net jobs. This gain would not have been possible without micro and small enterprises. As shown in the table below, the trend was also similar in previous years, as large businesses lost thousands of jobs while microenterprises and small businesses accounted for the majority, if not all, of the net jobs created in those years.

Table 1: Oregon Net Job Gains and Losses from 2001 - 2004

<u>2001 - 2004 Trend of Oregon Business Net Job Creation by Firm Size</u>				
	<u>Number of Employees in Firm</u>			Net New Jobs by all firm sizes
	1-4	1-19	500+	
2001-2002	9,987	6,024	-17,101	-35,001
2002-2003	15,774	21,003	-11,433	9,695
2003-2004	13,856	18,126	-7,513	16,162

Source: Statistics of US Businesses, Census Bureau

As it can be inferred from the information provided, the role of microenterprises is extremely important not only for the overall health of Oregon's economy but for the individuals and households that are benefited by these enterprises.

Purpose of Study

To this date, there is little or no academic research exploring the effects of microentrepreneurs in Oregon, much less in Lane County, Oregon, the county with the greatest decline of household income levels in the state (American Community Survey, 2005). As the primary providers of microenterprise development services, microenterprise development programs (MDP) have the power to fulfill the promise of microentrepreneurs as they create, sustain or grow their businesses. The purpose of this study is to explore the experiences of microentrepreneurs with this system through the lens of a microenterprise program in Lane County, Oregon and to illustrate the traits that make microenterprises a successful tool for economic and social development. This program, administered by Lane MicroBusiness (LMB), provides microenterprise development services to a variety of clients representing underserved populations. This study will analyze the effects reported by these clients as a result of program intervention.

On a larger scope, this study will provide a basis for initiating academic research related to microenterprise development in Oregon, with the hope of enticing others in the field to conduct thorough analyses of program effectiveness with the purpose of improving the breadth of outreach to individuals that need it most.

Research Question

The study will be based on the following question: What are the effects reported by clients of microenterprise program services? In exploring this question, this study also addresses what traits of the services make microenterprise development possible; whether these services help clients improve their economic and living conditions; identifies obstacles faced by microentrepreneurs; opportunities for improvement for LMB; and examines limitations of microenterprise development as a tool for socio-economic development.

Methodology

The methodology of this study involved one focus group and 15 in-depth interviews. The target population for both methods was previous clients of LMB program services. With the help of the LMB staff, a group of subjects who previously received services from LMB were asked to participate in the focus group on a volunteer basis. The focus group was conducted prior to the start of the in-depth interviews. The people recruited for the focus group were not part of the individual interview process. The focus group participants were all from Eugene and represented women, former teachers and vocational rehabilitation clients. The focus group lasted approximately 1 hour and 30 minutes. The individuals who participated in the in-depth interviews were drawn from a

randomly generated list from a database property of LMB. The interviews were conducted from March 10th to April 28th, 2008. Participants included individuals from Eugene, Cottage Grove and Veneta, Oregon and represented low-income individuals including single mothers, vocational rehabilitation clients and minorities. During the focus group and interview process, the participants were asked questions about program satisfaction, control and ownership, benefits and barriers of the program, confidence and decision-making, as well as changes in income and assets, among others. The interviews were semi-structured with open-ended questions and occurred in a conversational style. The interviews were conducted on an individual basis and took approximately 15 – 30 minutes.

Limitations

The research of this study is aimed at obtaining information from previous recipients of LMB services in order to explore the experience of microentrepreneurs. While the interview participants were drawn at random, as it will be explained further, their backgrounds and the phase in the program in which the participants were in regards to the development of their microenterprise varied widely. Some interviewees had an established microenterprise, others were at the expansion phase and some were still planning their business. Although these differences make generalization difficult, the results nonetheless provide a useful insight into the microentrepreneurs' experience. In addition, the voluntary participation of the focus group participants limits the scope of the study because of possible self-selection bias.

Importance of the Study

Microfinance services have the capacity to generate benefits at the community, household and individual levels. Several studies of the microfinance field provide a closer look at the impacts to service recipients and the significance of their microenterprise. For example, on an issue published by the Community Development Department of the Federal Reserve Bank of San Francisco, Valerie Plummer the Executive Director of Oregon Microenterprise Network (OMEN) points:

In rural areas, self-employment has become a central means to cope with structural unemployment caused by mill and plant closings. And in urban areas where corporate downsizing...affected communities, microenterprise programs are often able to reach entrepreneurs with increased efficiency and breadth of services (2006).

As it can be inferred, Oregon needs microentrepreneurs in order to sustain local economies. As the slogan “Think Global, Act Local” permeates throughout Oregon’s progressive culture, microenterprises’ role as a tool for local economic development will become increasingly significant. Given the importance of microenterprises to the state’s economy and the help it provides to many underserved populations, it is imperative to analyze the effects experienced by microentrepreneurs and continue to explore the field. As the growth of microenterprises in the state continues, the voices of the individuals that make up very small businesses must be heard.

Organization of the Study

The remainder of this study consists of four chapters including a literature review, methodology, findings and a conclusion and recommendations section.

The literature review provides a historical background of microfinance both in developing countries and in the United States as well as its key components. This review allows the reader to understand how microfinance was born, the forces behind the field, microfinance in the United States and its role on the national economy. This review closes with some of the main challenges in the field. Chapter Three explains the methodology used in both the focus group and in-depth interviews conducted in this study, how the information was obtained and how it was analyzed. Following this, Chapter Four presents an analysis of the findings. Chapter Five concludes with a summary of the findings and a discussion of recommendations to consider in the future.

CHAPTER TWO

LITERATURE REVIEW

The Roots of Microfinance

Microfinance as a formal financial activity is believed to have begun with the formation of cooperative credit unions. The members of early credit unions included relatively poor people who owned or rented farms, and artisans and shopkeepers who had tiny businesses (Carr & Tong, 2002; Pischke, 1999). According to the Credit Union National Association (CUNA), the history of credit unions began in 1844, with a group of weavers in Rochdale, England, who established the Rochdale Society of Equitable Pioneers. They sold shares to members to raise the capital necessary to buy goods at lower than retail prices, and then sold the goods at a savings to members. In doing so, they became the first credit union. The movement then spread to Germany in 1850, Canada in 1901 and the United States in 1908. Modern day microfinance evolved in the late 1970s with the creation of the Grameen Bank.

Grameencredit

Two decades ago, in the wake of social movements and the rise of empowerment around the world, a ray of hope shined for women and their families in rural communities in Bangladesh. What appeared to be unfeasible to the eyes of established banking systems became doable: lending money to the poor. Over the years, the poor have been continuously ignored and rejected as they try to obtain loans. The main reason for

rejection is the lack of any sort of collateral that banks can rely on to provide their loans. But Muhammed Yunus saw what many people didn't. The recipient of the 2006 Nobel Peace Prize noticed the diligence and willingness to work of this group of people that was hindered by high unemployment and the lack of access to working capital (Yunus, 1997). Later, he began to provide small loans, primarily to women, and funded what is now the world-renowned Grameen Bank. Thus, the idea of providing small loans (from now on microcredit) to those who are marginalized by the formal financial system was born. According to Yunus:

Grameencredit is based on the premise that the poor have skills which remain unutilized or under-utilized. It is definitely not the lack of skills which make poor people poor. Grameen believes that the poverty is not created by the poor, it is created by the institutions and policies which surround them. In order to eliminate poverty all we need to do is to make appropriate changes in the institutions and policies, and/or create new ones (Grameen, 2008).

The Grameen Bank created a methodology and an institution around the financial needs of the poor, and created access to credit on reasonable terms, enabling the poor to build on their existing skill to earn a better income in each cycle of loans (Grameen, 2008). What began as act of justice and dignity for those who it is often denied to opened the door to what has now become the rapidly growing field of microfinance.

Traditionally, those who benefit from microfinance are those in developing countries who struggle to provide for themselves, known as the "poorest of the poor". However, in the last few years, microfinance has begun to serve a group of beneficiaries largely distinct from the one normally associated with microcredit. It now serves not only in developing countries, but also in the developed world; helping individuals who,

although not living in poverty, have general difficulty in gaining access to the financial system (La Torre & Vento, 2006).

Microfinance in Developing Countries

Because of the limited employment opportunities in both rural and urban areas of the Third World, millions of poor people must make their living through self-employment in the informal economy – the economy of street vendors, petty traders, small-shop owners, scrap collectors, small artisans and microbus drivers (Woller & Woodworth, 2001). In addition, as Woller and Woodworth (2001) state, the “informal economy differs from the formal economy not just by its ‘underground’ status, but also in that it is starved by the lifeblood of the formal economy – financial capital”.

Despite the global efforts made in the past decades to formalize the provision of financial services to the poor, microfinance is still considered part of the informal sector economy throughout the world, primarily in developing countries. For example, according to Ela R. Bhatt, “The informal economy in India today employs well over 90% of the Indian workforce, provides some 63% of the GDP, 55% of the savings and 47% of the exports” (Jaquette and Summerfield, 2006).

In addition, a study by the Inter-American Development Bank indicated that “In the mid-1990s, the microenterprise sector employed more than 50% of the labor force in Latin American countries and...an average of 84 out of 100 new jobs in the region were generated by microenterprises” (Benería, 2003). Even though these are just two examples of microfinance in different areas of the world, they nonetheless capture its importance and its impact in the developing world. To this day, hundreds of organizations and microfinance institutions (MFIs) around the world have become change agents by

providing millions of dollars in loans to those that lack collateral. According to the Microfinance Information Exchange, there are over 1,100 MFIs around the world that provide services to 68 million clients in over 100 different countries (2008).

Microfinance in developing countries and economies in transition is characterized by microcredit loans given on the basis of per capita gross domestic product. Loan sizes range from \$50 or less up to several thousand dollars, depending on the country and local financial market (Carr & Tong, 2002; Von Pischke, 1999). By acquiring access to credit, microentrepreneurs are more likely to have the potential for leveraging their small-scale business efforts into a more fulfilling and sustainable future (Woller & Woodworth, 2001).

One of the staples of microfinance in developing countries is group lending, which was also pioneered by the Grameen Bank. In group lending, four to ten people form a group, receive training together and decide who will receive the first loan. The trust of fellow members serves as collateral to the microcredit provider. All members receive the loan and achieve eligibility for additional loans only as long as all members maintain current payments (Carr & Tong, 2002; Servon, 2002). Each member within the group is thus individually and collectively responsible for the credit rating of the group and for ensuring that the funding cycle is not broken by a default in the payment schedule (Bhatt and Tang, 2001). It has been noted that by providing support to group rather than individuals builds community and, therefore, serves both social and economic aspects of microfinance. In addition, the innovative use of joint-liability groups to provide microcredit to people without traditional collateral in the developing world contributes to the success of microfinance in this region (Morduch, 1999).

Overall, the success of microfinance in the developing world began to expand throughout Asia, Africa and Latin America and it wasn't long after this industry boomed in the late 1980s that this new method of economic development was being realized in European countries as well as in the United States.

Microfinance in the United States

Entrepreneurship has been the backbone of the American economy since its inception. Although business ownership is as old as the United States, the microenterprise field in this country is relatively young. Even though abundant wage jobs and an effective public safety net decrease the push to self-employment, the field has experienced dramatic growth. Nearly 20 years after the start of microfinance in the US, the number of programs has grown to more than 500 across the country, of which 60% cater exclusively to rural areas, considered the most economically vulnerable regions (Edgecomb and Klein, 2005). For the most part, US microenterprise development programs were initiated as local based responses to a need for better economic options, particularly for people who lacked access to mainstream financial institutions (Servon, 2006). Therefore, the target demographics of these services became women, public assistance recipients, people with disabilities, displaced workers, and minorities who are not considered "bankable" by formalized financial services. The goal of the microfinance services is to assist clients in creating or growing a microenterprise.

The interest to stimulate this field has been so great that the total investment in microenterprise development is \$100 – \$150 million per year. The majority of microfinance programs in the United States offer business training and/or "small" loans of \$35,000 or less, to businesses with five or fewer employees, which defines what is

considered a microenterprise (AEO, 2005; Servon, 2006). Nonetheless, the US microenterprise sector is considered small, as 60% – 80% of jobs in the developing world are attributed to microenterprise compared to only 8% – 20% in the United States (Edgecomb and Klein, 2005).

As microfinance programs continue to grow around the country, it is important to analyze their effectiveness to explore its possible impact in the developed world. Unfortunately, programs in the US have encountered major challenges in social, financial, and administrative intermediation. One of the main reasons why the field faces these challenges is due to the intense customization of its services (Servon, 2006). Unlike in developing countries, the majority (if not all) of the programs in the U.S develop their own curricula, their own system of tracking data, their loan process and documentation.

Having such an array of methods is not only challenging in assessing the benefits of program intervention and convincing the public and policy makers of their worth, but it also causes programs to become highly ineffective in carrying out their missions (Bhatt and Tang, 2001).

It is also important to consider that program directors and founders approach the goal of their programs in a variety of ways. According to the Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD), for some program directors microenterprise assistance is “a means to help low-income individuals increase their income and assets and thus reduce poverty...to others it is a means to create or strengthen small businesses” (2005). Because of the variety of program goals and their approaches to obtaining the desired goals, it is challenging to assess its effectiveness across the board as well as to generalize both their successes and failures.

Key components of Microfinance in the United States

Organizations offering microenterprise development services in the United States initially focused on credit. As the field grew, other methods were implemented such as group lending and savings. Unlike in the developing world where this method has proven successful, there is a greater emphasis on training and technical assistance to build confidence as well as personal and business skills due to the complexities of the American economic system (Plummer et al, 2005). In addition, asset building through microenterprise has been greatly emphasized through individual development accounts. The following paragraphs will address these methods in detail.

Microcredit Loans

Credit is an important ingredient of economic development in all societies. In the United States, making credit more accessible to microenterprises has been suggested as an asset-based approach to poverty alleviation and local economic development (Hung, 2003). An important aspect to consider as one of the differences between microfinance in the US and the developing world is the individual system of loan provision. Most microfinance programs in the developing world make loans to the poor through groups but, in the US, this system fails because of the lack of social networks where individuals can interact with one another and build trust, as a result individuals prefer to obtain loans on their own (Schreiner and Woller, 2003). Even though each group member is liable for the debts of others, if one individual does not pay, the others must, otherwise the group loses access to future loans. Microfinance programs prefer group loans as opposed to individual loans because they value social capital, they aim for community level

outcomes, and many tasks can be delegated to the group members leading to a greater sense of empowerment and increasing business skills.

In the United States, the loan amount provided by microfinance programs is far greater than in the developing world. Even though greater loans can be more useful in the short-run, high loans translate to debts and payment default in the long-run. Not only does loan defaulting negatively affect the client but the programs also feel the impact. There are hundreds of programs throughout the US with outstanding loans. These loans amount to an average of \$10,000 per individual, which translates into millions of dollars in debt nationwide (Schreiner and Woller, 2003). Therefore, it is important to consider how providing loans to individuals may hinder not only the default rate but also social capital and, consequently, community development.

Training and Technical Assistance

Providing training and technical assistance to low-income individuals has become the core of microfinance services in the United States. The focus on training is to equip the poor to compete in the marketplace with their microenterprise. Unlike the majority of microfinance programs in the developing world that provide loans, most of the US programs offer only training or both training and loans (Schreiner and Morduch, 2002). Because access to financial capital is more readily available in the United States, there is a larger emphasis on training as it is not as accessible as financial capital acquisition through credit cards, commercial bank loans, and the like. Due to the complex system that hopeful microentrepreneurs have to navigate through when establishing a business, and the different rules and regulations that they have to meet, human capital, which refers to the education and skills to start a business, becomes more important to

microentrepreneurs in the United States. To help clients achieve their business goals, training and technical assistance is the most popular service provided by microenterprise development organizations. Through this service, participants learn about marketing, business planning, accounting, bookkeeping and general business managerial skills.

Individual Development Accounts

The significance and wonders of matched savings are eloquently summarized by Mark Schreiner (2004):

Like grants, match savings do not indebt the poor. Like savings, matched savings require the user to contribute. Like training, matches savings may include financial education. And like loans, match savings leverage the entrepreneur's own assets (Schreiner, 2004).

Individual Development Accounts (IDA) are a matched saving structure designed to help the poor save and build assets. For example, as in the case of Lane Microbusiness, a microenterprise development program in Eugene, Oregon, a microentrepreneur is matched with three dollars for every dollar they save. The majority of the funds provided by IDA are made possible by government grants to facilitate underserved low-income individuals to develop a microenterprise. Because of the various constraints faced by clients when interested in a loan, many individuals prefer to enroll in IDA. In addition to the added bonus, IDA participants also receive financial education and encouragement from program staff (Schreiner 2004). Furthermore, participants own the accounts and may make withdrawals any time they wish; however, the program providing the IDA only matches those withdrawals for the purpose of investing in their microenterprise.

Challenges in Microfinance

Despite documented successes by several studies, other research efforts show that some microfinance programs have experienced a wide range of challenges such as limited outreach, excessive overhead cost and high loan losses (Bhatt & Tang, 2001). To put the challenges in context, the Association for Enterprise Opportunity (AEO) states: “If the microenterprise development industry was a single business, then it could be characterized as having low market penetration, high costs, increasing competition, inadequate expenditures in R&D and technology, and promising but insufficient returns on investment” (Servon, 2006).

Financial Sustainability

Sustainability is one of the primary issues found among microfinance service providers. Aside from all the positive outcomes achieved by microfinance institutions and microenterprise development programs, not all of them are sustainable or able to return a profit. Despite their rapid growth and sound operations, less than half of all programs return a profit and most still require the help of donors and subsidies (Sengupta & Aubuchon, 2008). Issues regarding financial sustainability are predominant on the microfinance field. Many times the costs are not covered by the monetary returns the program obtains via fees or grants in order to maintain its services. Despite of these issues, programs assisting microenterprise development remain a cost-effective method to provide financial services to typically underserved populations.

Market Penetration

Microenterprise development programs continue to experience difficulty reaching the markets they intend to serve. Edgcomb and Klein estimate the size of the market for the targeted services provided by microenterprise programs at about 10 million individuals (2005). Assuming this figure is accurate, the field has fallen short of reaching its target market, as it served 626,277 participants in 2005 (FIELD, 2005). Part of the reason behind outreach problems might be explained by the client-to-staff ratio, as the majority of microenterprise development programs are short staffed and the amount of potential clients far exceeds their capacity.

Fragmentation

The difference in mission among programs can be summed up into those that see themselves as either an economic development entity or as a social services entity. Their approach depends largely on the program's founder. The microenterprise field has historically sold itself as both and many programs sit in the middle of that spectrum (Servon, 2002; Servon 2006). While implementing either of the approaches can be successful, attempting to pursue both can lead to mission confusion. This lack of identity, as well as the lack of standardization, makes definitions of success difficult in addition to making the creation of standards and performance measures difficult to be embraced across the field (Servon, 2006).

Conclusion

The rise of microfinance has overturned established ideas of the poor as consumers of financial services, shattered stereotypes of the poor as not bankable, spawned a variety of lending methodologies demonstrating that it is possible to provide financial services to the poor, and mobilized millions dollars of “social investment” for the poor (Brau & Woller, 2004; Mutua, et al., 1996). Despite of these changes, there are challenges that should be addressed. Given the enormous and rapid growth in the field, it is important to analyze to what extent success claims can be confirmed and whether microentrepreneurs and recipients of microfinance services are in fact experiencing it.

CHAPTER THREE

METHODOLOGY

Overview

While measuring financial and tangible results may be straightforward, measuring social and economic impact of microenterprise development to an individual, household and community provides a challenge to many practitioners. Impact assessments require research methodologies capable of isolating out of a complicated web of causal and mediating factors and units of measurement that are not easily quantifiable. Thus, creating impact assessments is not only difficult but also costly, and not many organizations have the time or the resources to undertake this process. To put the complexity into context, Edgcomb and Klein (2005) mention that out of the over 500 institutions that provide services to microentrepreneurs around the United States, only one, the US Department of Labor's Unemployment Insurance Self-Employment Demonstrations (UISED), used an experimental design and, therefore, can be considered to test the "impact" of self-employment or microenterprise programs.

The purpose of this study is not to create an impact assessment of a Microenterprise Development Program (MDP) but rather to explore the experiences of microentrepreneurs through the lens of Lane MicroBusiness (LMB), a MDP in Eugene, Oregon and to illustrate the unique traits that make microenterprises a successful tool for economic and social development. Thus, the primary concern of this research is to study

the effects reported by previous LMB clients and to assess to what extent the services received led to any changes experienced by them. A previous client is defined as an individual who received services from LMB at least one year before the time the research was conducted.

Case Study - Lane MicroBusiness

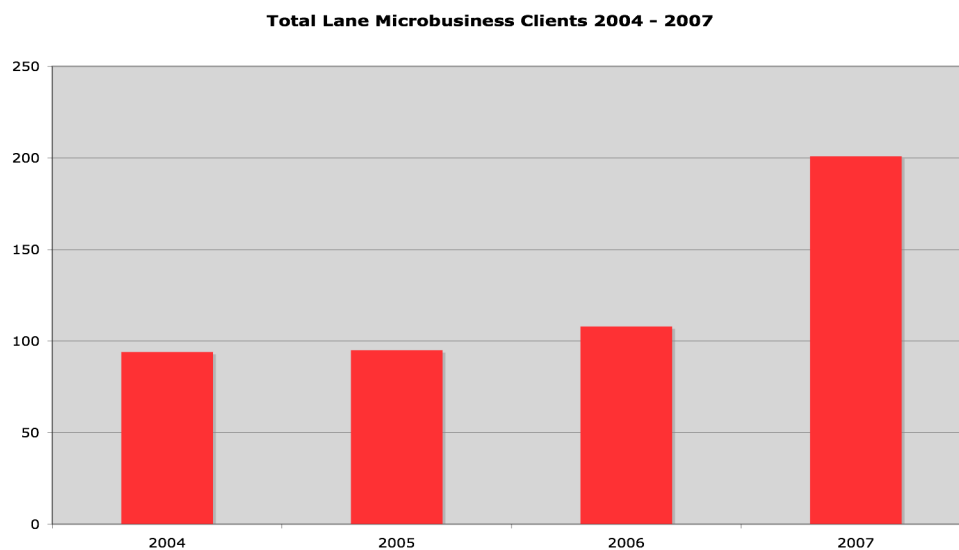
LMB was founded in 1998 as a collaborative program of Lane Community College, the Eugene Saturday Market, and O.U.R. Federal Credit Union. It formally organized itself as a 501(c) (3) non-profit in November 2003 (LMB, 2003). LMB is funded primarily through government grants and fees to provide services to those under the poverty level throughout Lane County, Oregon. This program fits under the model used by MDPs throughout the United States. Their mission is simple: to provide high-quality services to low-income individuals who want to either start a small business or to build their existing business. They do so by providing services that include business training in the form of classes, workshops and peer groups; technical assistance such as one-to-one counseling, business planning and management assistance; and access to loans in the form of IDA and microcredit loans of less than \$35,000. With regards to the area of service, LMB serves approximately 100 - 200 clients per year in Lane County, Oregon, primarily in Eugene and adjacent cities, which are 80% rural (Plummer, 2005). Clients from all sorts of backgrounds are welcome to attend classes and/or one-on-one trainings. In order to be eligible for their services, individuals must meet the low-income status guidelines according to the U.S Department of Housing (HUD) Median Family Income Guidelines as applied to Lane County. This means that an individual must have an income of \$30,400 or less to be eligible for LMB services. However, to receive loans or

enroll on the IDA program, individuals must meet separate eligibility requirements. First, individuals must meet the federal low-income guidelines, which translate into being at or below 200% of the poverty level, or the same as having an annual gross income of \$19,520. As a result, the requirements for participation are lower for IDA enrollment than for the rest of LMB services. Overall, IDA hopefuls must meet one of the following guidelines:

- Individual's household income is at or below 200% of poverty level
- Individual qualifies for the Earned Income Credit
- At least one member of the individual's household is receiving Temporary Assistance for Needy Families (TANF) funds.

From 2004 to 2007, LMB total clients grew from 94 to 201 experiencing a remarkable 113% client increase.

Figure 2: Number of Lane MicroBusiness Clients from 2004 – 2007



Source: LMB 2008

Research Process

The research approach used in this study includes two different methods and provides narratives as the basis for qualitative analysis of the results obtained. The first method used in this study was the creation of a focus group composed of a set of volunteers drawn from former LMB clients. Following the focus group, a series of in-depth interviews were conducted also to previous recipients of LMB services. The purpose of both the focus group and the in-depth interview process was to seek a better understanding of how program services strengthen microentrepreneur success. In addition, these two methods generate information and insights at the individual level in order to gauge the self-reported benefits, if any, obtained from LMB and assess the experience of its past clients. The framework of the questions used for both methods aims at conceptualizing reasons for becoming microentrepreneurs, the types of business created, key areas in which individuals experience change such as material and cognitive changes, as well as their overall perceptions of their own success and program efficiency. See *Appendix A* for focus group and the in-depth interviews questions.

Focus Group

With the help of the LMB program assistant, a group of subjects who has previously received services from LMB were asked to participate on a focus group on a volunteer basis. The purpose of the focus group was to get acquainted with the experience of LMB clients and to test the questions that would be used during the in-depth interview process. The questions that were used in the focus group allowed the lead researcher to learn more about the client's perspective on the services provided by LMB

and how the program works. The people recruited for the focus group did not participate in the individual in-depth interview process. A total of 10 individuals participated in the focus group. The focus group was conducted at the offices of LMB and lasted approximately 1 hour and 30 minutes.

Individual In-Depth Interviews

Fifteen in-depth interviews of previous LMB clients were conducted from March 10th to April 28th, 2008. The interview participants were drawn from a list generated from a LMB database, which contained 979 entries. These entries represented individuals whom previously contacted LMB to obtain its services. Out of the 979, a total of 50 clients were drawn at random using a random number generator function from a *Microsoft Excel* spreadsheet. Once selected, all of 50 individuals were contacted via telephone, but only 15 responded and participated in the interview process. Participants resided in Eugene, Cottage Grove, and Veneta, Oregon and represented low-income individuals including single mothers, vocational rehabilitation clients and minority groups. During the interview, the participants were asked questions about program satisfaction, control and ownership, benefits and obstacles of the program, confidence and decision-making, as well as changes in income and assets, among others. The interviews were conducted by phone on an individual basis and lasted from 15 to 45 minutes. The interviews were semi-structured with open-ended questions and occurred in a conversational style.

What is an outcome?

Due to the difficulties to conceptualize success a “business outcome” will be used to illustrate, to an extent, how the services provided to the participants might have influenced their overall experience. For the purpose of this study, a participant is considered to have a “business outcome” if he or she reports being in business at the time of the interview. Their business might be a new microenterprise that started during or after receiving services from LMB or a pre-existent business that survived as of the time of the interview.

Limitations

This study does not use an experimental design, therefore it is not possible to identify to what extent the clients outcomes are a direct result of the program intervention. The methods used in the study do assume that at least some of the benefits experienced by LMB’s clients are attributable to the program, but not necessarily all of it.

Even though the targets of this study are previous clients of LMB, it was not possible to interview individuals that received the services at a specific period of time. The client database provided by LMB did not include information with regards to the date when clients enrolled in the program; therefore, the interview participants received services from LMB at different points in time. This made the assessment of the results difficult to analyze as there could have been other external factors that contributed to the overall experience of the client. In addition, there are factors such as personal characteristics and other circumstances, which vary greatly from one individual to the next that could lead an individual to successfully achieve their business goals and to

create or grow their microenterprise. Thus, it is challenging to prove a causal link between program services and client impact.

In addition, even though the semi-structured nature of the interviews allows flexibility and easy flow of the conversation, some of the participants were terse in their responses and some questions were simply not asked. Due to the high time demand of having a business, many of the participants expressed being highly pressed on time. In these instances, the number of questions was cut short to facilitate the needs of the participants.

Lastly, there was a wide variation in the backgrounds of the focus group and interview participants and in the phase of the program in which they were involved. Some interviewees had an established microenterprise, others were at the expansion phase and some did not have a microenterprise at all. Although these differences make analysis difficult, the results nonetheless provide a useful insight into the microentrepreneurs' experience.

CHAPTER FOUR

STUDY FINDINGS

Overview

This chapter focuses on the results obtained through the methods outlined in Chapter Three. It provides details on the individuals that participated in the focus group and interview process as well as a brief description of the types of businesses they run. Next, the chapter summarizes the combined results of both study methods including benefits and challenges, followed by an analysis of the trends and results of the study. It should be noted that the changes experienced and mentioned by the clients are a result of their own judgment and cannot be ascribed causality to the microenterprise services that these clients received.

Characteristics of Interview and Focus Group Participants

The results of this study combine the responses of 25 separate individuals who participated in either the focus group or in-depth interviews conducted for the purpose of learning about microentrepreneurs at Lane MicroBusiness. Together, the participants represent low-income individuals, which include women, members of vocational rehabilitation program, TANF recipients, disabled individuals and minorities, predominantly of Hispanic descent.

As the members in the focus group were discussing questions and individuals were describing their particular situation during both the focus group and individual interviews, it became apparent that everyone was at different stages of development of their business plans. This made the job of understanding the types of services that resulted in benefits even more challenging. For example, at the time they participated in the study, some individuals were at the planning stage of their business while others were either on the verge of starting their businesses or already had a running enterprise. In addition, some individuals mentioned they wanted to volunteer for the study because they were thankful to LMB and wanted to give back for receiving one-on-one counseling for their business ideas; these participants neither had a business nor received any loans. Evidently, the group that represents the results in this study is very diverse. Despite of the group's diversity, participants do share some similarities. Everyone was considered "unbankable" by mainstream loan services and, thus, turned to LMB for help that was either free or available for a small fee. In addition, regardless of their backgrounds, all participants had a need for LMB services.

Microentrepreneurs and their Businesses

There are many factors that both "push" and "pull" individuals into becoming a microentrepreneur and self-employed. "Pull factors" are those that attract an individual to start a business. These include distinct market opportunities, the desire to be "one's own boss" and the potential to make more money than in a wage or salary job. On the other hand, the factors that "push" individuals into microentrepreneurship are for the most part negative factors such as unemployment, discrimination, being disabled and low wage levels among others (Edgcomb and Klein, 2006). Out of the 25 individuals that

participated in this study, 17 fall into the “push factors” category as many of them were people who were either laid off, such as teachers and factory workers, or needed an extra source of income for their families to make ends meet. The remaining eight individuals can be categorized into the “pull factors” of microenterprise development. These individuals emphasized their need to be self-employed and fulfill their dream of having their own business. Some of these individuals were artists who wanted to profit from their skills, while others simply had the desire to become their “own boss”.

When interview participants were asked why they chose to become a microentrepreneur and the reason they chose to sign up with LMB, the number one answer was to obtain more money. This is evident due to the nature and mission of microfinance, where individuals seek the opportunity to make more money in order to change their economic status. This is no different than their counterparts in the developing world. However, shortly after stating their financial needs, several respondents reflected upon other reasons behind their choice to become self-employed. In addition, some participants mentioned the need to learn skills that would allow them to enhance their business, as well as achieving a sense of pride and success as a result of owning a business. With regards to skill acquisition, one participant mentioned, “The further you get into the program the more you realize all the skills you need”. Another participant joined the IDA program simply for the cash benefit, but later came to realize that he knew nothing about cash flow statements, supply and demand, product analysis and product design. After enrolling in classes and receiving training, a participant pointed out:

Money was not as important, because without the business skills to put into practice, the money was relatively useless, so it was crucial for me to obtain those skills.

On a different note, a local artist responded the following when asked their reason behind their enrollment with LMB:

Being a single mother is hard...I was at a time where I needed a lot of help and emotional support; a friend told me about the program and told me they [LMB] could help me start a small business. It was comforting to know that I could use my artistic knowledge and skills... having the help from LMB definitely helped me lift up my spirits and gave me hope and a sense that I could gain some sort of income without leaving what I love doing.

As noted, even though for many individuals money was their main driver to contact LMB, there are also many other aspects that play an important role when deciding to become self-employed and enroll with LMB, be it skills, training or simply personal encouragement.

Types of Businesses

For the most part, the types of businesses that participants owned or wanted to pursue can be considered product providers, with a small group focused on the service sector. Amongst the cohort represented in this study, the types of businesses ranged from candle making and pottery to furniture upholstery, wood working and construction, and plant care, to mention a few. All of the individuals declared working 50 - 60 hours a week on their business. With the exception of two participants, all of the interviewees who were currently on business had no additional employees aside from themselves. Out of the two who had the capacity to employ personnel, one had two full-time employees while the other could only afford a half-time position.

Services Received

When the participants were asked what types of services they received from LMB, an overwhelming majority (80%) received some sort of training or technical assistance either through classes, workshops or one-on-one counseling with LMB staff. Only five of the individuals were enrolled in the IDA program and none received a small business loan. Although some individuals expressed the need to apply for a loan, some hesitated to go through the application process as they thought they would not qualify or were afraid of being rejected. Regardless of their hesitation to apply for a loan, most participants did show interest in obtaining one and knew that through the work they did with LMB their chances of becoming more “bankable” were greater than if they went on to apply for a loan without the services and help from LMB. Meanwhile, the majority preferred individualized one-on-one sessions when obtaining guidance and or getting their questions answered.

Benefits Experienced

As previously mentioned, it is difficult to verify whether the benefits and changes incurred by the participants were indeed caused by the services provided to them. Despite of this, this section presents the most claimed benefits and challenges as expressed by the individuals that participated in this study. As detailed in the next paragraphs, the most widely mentioned benefits were one-on-one sessions, business plan development, IDA program enrollment and general business knowledge.

One-on-One Training Sessions

When participants were asked which of the services received from LMB were more valuable to them, the majority of the participants agreed that the one-on-one sessions were highly useful, and it helped them in a variety of ways aside from getting their business started. For example, in more than one occasion, it was mentioned that during the one-on-one session, LMB provided valuable and personalized guidance, which helped individuals analyze their strengths and weaknesses and encouraged them to follow specific steps to achieve success. One entrepreneur mentioned:

As entrepreneurs we have millions of ideas bumping around our heads. The program helps you narrow down your focus and assess the situation to steer us away from failure, which I hear is very common when individuals try to start their own business.

Thus, due to the time constraints (which all participants exhibited) and through substantive information and counseling received, the one-on-one sessions were the most valued service obtained from LMB.

It is very time consuming to go to the classes, do the business plan and do homework, and at the same time figure out what you want to do for your business. So, having staff members do one-on-one sessions with me was the most valuable thing I got. I got most of what I wanted from the one-on-one meetings, they were extremely helpful!

Business Plan

Another service component that was unanimously agreed to be one of the most important attributes obtained from LMB was the ability to create a business plan. Because loan providers, whether mainstream or catered to low-income individuals, require a business plan to ensure investment, the business plan becomes an important tool for the future success of their business. This is particularly important, as research has

shown that completing a business plan does represent an important marker of an individual's likelihood to succeed as a business owner. This is confirmed by one of the interview participants:

The business plan was one of the most important things I got from the program. Having a business plan was the most valued thing for me. I could not have developed the plan without LMB's help.

Individual Development Account Enrollment

Saving money can be a challenging task. This can be even more demanding to those who don't have a steady and significant source of income. The difficulty of performing this endeavor can be reflected by the amount of individuals that were interviewed, as only 20% were involved in the IDA program. The benefits obtained through these services was echoed throughout this cohort and greatly emphasized. As a microentrepreneur narrated her experience and the benefits she received, in her opinion the advantage of having an IDA could not be understated:

It is a big deal when you match your funds with the help of the IDA and add the business plan component. I didn't know as much as I do now, it was all definitely worth it! All my funds from the IDA helped me buy goods for my business, which is part of my profit and income, and there is no way I could buy all I did without my matched savings and LMB!

In addition, some individuals expressed that having the responsibility to save, once enrolled in the IDA, increases the person's awareness with regards to expenses and provides them with a sense of stability and pride:

What we really appreciated is that LMB helped us in being more realistic in the sense that it is not going to be easy to have income at the start of our business, but, having the savings account and knowing that we have to save every month has really helped us manage our family finances and provided us with leverage for the future.

Knowledge and Intangible Benefits

Due to the fact that many, if not all, of the clients that come to LMB have no business background and just come with an idea for their future business in mind, the changes in knowledge they experienced were highly valued. As a participant mentioned, “I really knew nothing about business; this was all very new to me and coming to LMB definitely helped”. In addition, another individual commented: “All the skills I’ve gotten from LMB have given me more money and financial stability”. The knowledge gained was classified into many areas. For some, bookkeeping, networking and management were keys to lessen their frustrations and increase their chances of success in business, while for others:

The program was very helpful in giving me ideas that I need in order to increase my advertising and promote my businesses. As a result I had a 30% increase in sales.

Aside from business specific knowledge, when participants were asked to describe any personal benefits they experienced, control and confidence were mentioned by a majority of the participants:

I definitely recommend LMB all the time to all those interested in starting their own business. The things that you get from here are priceless....I now feel I am in control of my future thanks to my business and all the help I got from them [LMB].

Another person’s experience helps to confirm this benefit:

I feel I have more confidence because of the things I achieved thanks to the program such as my business plan. I felt the format met the criteria I would need for a future loan and I like knowing that I have that tool with me and I can use it whenever I am ready. So yes, I am more confident I can achieve my goals and my self-esteem has gone through the roof!

Overall, LMB clients expressed not only economic but intangible benefits as a result of the services obtained. From confidence to profits, stability, organization and funds, all were important components echoed by the microentrepreneurs in this study.

Challenges Experienced

To gain an understanding of the difficulties of establishing a microenterprise, microentrepreneurs were asked to describe some of the challenges they experienced during and after their association with LMB. The most mentioned challenge was time. Due to the fact that many of the individuals devote an average of 50 hours per week to their business or worked another job in addition to dedicating time to the success of their enterprise, many of them found it difficult, if not impossible, to obtain the help they needed. Even some people mentioned they signed up for classes but dropped out half way because of the time burden. Having the assistance of the program was deemed to be very helpful, but as suggested by a participant, “People have to be ready for the commitment”. One participant eloquently put this challenge into perspective:

Putting more than 50 - 60 hours a week on your business is very challenging and to make yourself available for classes or complete a business plan is even worse! I know I need help because I don't understand many things about how to handle my business and I would like to have more training but I can't afford the time to do it.

For those who were able to find the time within their busy schedules to attend classes, some of the material covered was helpful but many expressed they didn't learn as much as they thought they would. Part of this would be because their knowledge of the topics was more extensive than average or because their topics of interest were not covered in class. One class attendee commented:

To me the class seemed very “surfacey”. I learned a little and shortly after that I was done. I thought I was going to get more from them [classes], I really think

that the most important work I did was outside of class. I only took the classes to fill the requirement.

Aside from the time constraint and class dissatisfaction faced by many, the cohort that represents the individuals involved in the IDA program widely expressed the challenges of obtaining the matched funds from their account. The goal of the IDA is to provide additional funds to those that are capable of saving for the purpose of investing that money into their microenterprise, however:

The process of getting the money from the IDA was very cumbersome, clunky and time consuming. At times it was embarrassing to order supplies with no upfront money because I didn't have it...I thought the process would be fast, but my providers often complained of the slow payments but that wasn't my fault. Not only that, but we had a specific amount of time to spend it all which was a huge strain.

Another challenge voiced by participants was their concern with regards to the scale of their business and their inability to compete with bigger businesses that are able to afford cheaper goods. Thus, microentrepreneurs struggle to reach particular markets and convince customers of the quality of their products.

Results Analysis

To provide a closer view of the experience of microentrepreneurs and the possible contributions of the services provided by Lane MicroBusiness, the following paragraphs will highlight some of the trends inferred from the narrations provided by the individuals in this study.

Business Outcomes

Out of the 25 participants included in the focus group and in-depth interviews, 23 had a business outcome. As mentioned in Chapter Three, a participant is considered to have a “business outcome” if he or she reports being in business at the time of the interview. Their businesses might be a new microenterprise that started during or after receiving services from LMB or a pre-existent business that survived as of the time of the interview. Although it cannot be directly inferred that services led to these outcomes, all of the individuals that declared to be “in business” at the time of this study stated that the services provided to them contributed, in one way or another, to their current success. Be it training, counseling, classes, savings or networking, all provided a “step up the ladder” for these microentrepreneurs to maintain or create their business.

The Income Patching Effect

In general, the extent to which microenterprise development contributes financially to the family household varies widely across the field. For some, the enterprise provides full-time work and, thus, the main source of income for that particular case; for others, the business is a part-time deal that serves as a supplement for wage or part-time salary employment. Out of the individuals pursuing business ownership in this study, a significant majority counts on the income of another member of the household, thus using the profits of the microenterprise as a “patch” to supplement additional sources of income. From the 23 participants who owned a microenterprise, only four counted fully on their sales and business profits as a source for living. The rest held either part or full time jobs in order to compensate for seasonal downturns, income shortage or to simply have more financial resources than they already had. As one participant mentions:

I've been working another part time job while I'm building my business in order to make ends meet. I also have a job in which I work 10-12 hours per week which helps me keep afloat. I wish I could be full-time on my business but I can't afford it.

Part of the reason why microentrepreneurs use their business as "income patching" might be due to the scale of their business or the ability to count on additional income from another family member, making their business a secondary priority.

Downside of Self-employment

Even though there are many benefits and advantages to becoming self-employed, there are also negative aspects that were mentioned among the individuals in this study.

For example, one of the respondents commented:

I was laid off from my job and so I decided to start my own business but, one of the things I really miss is having a monthly check and knowing that I can count on that money every month. Now everything is up to me, and I also don't have insurance and that has become a problem.

Many others also echoed the issue of health insurance. For instance:

Health care is an issue for me, I don't have insurance because I would rather buy insurance to cover my son, when you are self-employed this becomes a great worry and this is one of the biggest changes as a result of not being formally employed.

While others were able to afford health insurance for themselves, it was not possible to do the same for their employees:

I have health insurance that I pay on my own, but unfortunately, because I am self-employed I can't afford to provide workers compensation and health insurance for my two employees.

While the provision and accessibility of health insurance to those pursuing self-employment is not the primary concern to those facilitating microenterprise development, it is nonetheless an important trend to consider as the amount of microenterprises

continue to grow in the area and self-employment is increasingly the choice for many low-income individuals through the state and the nation as a whole.

Group vs. Individual

Even though the one-on-one training and counseling services were highly valued, all the participants agreed that it would have been helpful to have more group interaction and that they valued the opportunity to get together with other people that have been through the process or are currently dealing with the same issues as they were. As one person stated:

Having people to relate to would have been huge; there wasn't the same amount of understanding from the instructors as there could have been from someone that was familiar with the process and issues we were dealing with at the time.

For those that were able to experience some sort of group interaction, it was found to be valuable and helpful:

Being around others that are going through the same experience is very refreshing and it is very helpful to talk and share ideas with others that you can really relate to...so, to me the opportunities that we had to interact with people that are going through the same process was more helpful than anything else.

From their opinions, it was apparent that there is a greater need to facilitate group interaction and to have more opportunities to talk with other similar program participants. Many showed interest in helping others and the idea of having or being a mentor was agreed as a valuable thing to have LMB offer in the future.

Urban vs. Rural

Even though the majority of the participants in this study were located in the city of Eugene, Oregon, nearly half of them were located in Cottage Grove and Veneta, which are considered rural towns in Oregon. For these rural participants, the difficulties of

establishing a business were even greater as the sources of income are smaller and the distance to the nearest microenterprise development program (in this case LMB) affected their ability to get the help or funds they needed. As a resident of Veneta mentioned:

Because I am in a rural community, I pay way more for anything I get than anyone in Eugene, and I need to spend gas money to go to Eugene and you know how difficult that is nowadays. Also, a lot of the services I need are not here [Veneta]; I can't afford to go to Eugene all the time and even just driving there to get a check [IDA fund] is ridiculous!

To compensate for the challenges faced by living in a rural community, LMB staff goes out of their way to provide classes, mentoring and training in those areas. For those that were able to get services locally, it was extremely valuable:

I can't afford to travel to Eugene as often as I would want. When I was able to get the mentoring from one of the LMB staff in my own town [Cottage Grove], I thought that was the greatest thing and I really appreciated them coming here. Their services are top of the line... establishing and maintaining your own business is very time consuming and if we had those services here I am sure many people would benefit from that. I know I would!

As noted in this previous comment as well, the need to have a similar service to that of LMB or a branch of the program in rural areas was equally mentioned by other rural area participants:

I look forward to having a similar service here in Cottage Grove, a cooperative for new and emerging businesses or an education resource would be something that we would greatly benefit from.

Conclusion

Overall, after obtaining services provided by LMB, all of the respondents agreed that LMB helped them to start, sustain or grow their business. The benefits obtained through the services provided were highly valued by all participants. From increased knowledge to training, to business plan making and increased funds, all were important assets that created value for all of the participants involved. For example one microentrepreneur mentioned: “This is by far the best resource I know in Lane County for low-income individuals to start their business”. In addition:

The kind of help that you get from LMB is priceless. They really helped me feel I was in control and what is going on in regards to making my business.

It is evident that program intervention is crucial in helping low-income hopefuls achieve self-employment to develop their microenterprise. The services, although at times challenging, provide a step up the ladder that helps to potentially overcome income stability and eventually creates a path to success.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Overview

This chapter summarizes all previous chapters dedicated to this study, provides a series of conclusions and offers a series of recommendations for both Lane MicroBusiness and for future research considerations with regards to microenterprise development in Lane County and Oregon.

Summary of Study and Findings

Microfinance is dedicated to the provision of financial services to low-income individuals. An important subset of this field is the creation of small businesses, also called microenterprises. These provide a source of living to underserved populations, as well as an important tool for economic development and/or poverty alleviation to the community where microenterprises are being encouraged and entrepreneurs are assisted to do so. Although the roots of microfinance can be traced to overseas countries, the United States has seen a growth in Microfinance Institutions (MFI) as well as Microenterprise Development Programs (MDP). Oregon is, remarkably, a microenterprise state. Businesses with fewer than five employees are responsible for 18% of overall employment in the state, and the development of microenterprises has experienced important growth in recent years. In sum, microentrepreneurs are key players in the Oregon economy.

Regardless of their importance, no academic research has considered analyzing the impact of the programs that provide microfinance services to Oregon

microentrepreneurs or have assessed the experience of microentrepreneurs in the region. This study was made to provide a closer look at microentrepreneurs in Lane County through the lens of Lane MicroBusiness, a MDP dedicated to assist low-income individuals who want to start a new business or build upon their existing business.

To obtain the opinions of those previously involved with LMB and learn about their experience as microentrepreneurs and clients of a MDP, a focus group and a series of in-depth interviews were conducted to a total of 25 individuals. Although a direct correlation between the experiences expressed by the participants and program intervention cannot be drawn, narrations provided through this study nevertheless provide valuable information. From the 25 participants, an overwhelming majority (23) experienced having a “business outcome” at the time of the study. Based on the study participants’ opinion, it can be inferred that the variety of services provided allowed the participants to enhance or create their microenterprise. The services that provided the most value to the participants were one-on-one training and counseling, business plan development and the Individual Development Account (IDA) program.

While the participants experienced a variety of changes, the majority agreed that, aside from monetary benefits, other intangible changes such as knowledge, confidence and control were also highly valued. For those with a running microenterprise at the time of the interview, the business was not their primary source of income. The majority used it to develop what is considered an “income patching” effect, where they use the profits from their business to “make ends meet” or simply to add another source of income. In addition, participants did not demonstrate a significant financial need; rather most of

them expressed a need for increased training, counseling and group interaction. While IDAs were deemed valuable, since only a small percentage of the study's participants went through the process, no significant conclusions about its effectiveness can be drawn. However, for those that did receive these services, having the opportunity to save and have those matches tripled by the program was an opportunity that allowed some to purchase business assets and expand their business. Overall, although all the participants in this study experienced no significant increase in income or living conditions, some did mention an increase in profits along with more financial stability.

Comments and Recommendations

As stated by a variety of studies, microenterprise development is not a panacea for the working poor and low-income individuals. It does not replace the need for world governments to develop coherent and effective macroeconomic policies. Rather, this approach to socio-economic development embodies the recognition that macro level policies alone have not significantly reduced poverty nor materially improved the living standards of the poor in both the developing and developed world (Woller & Woodworth, 2001). As a result, microfinance services and microenterprise development cannot be considered as the only tools to help low-income individuals gain access to financial services or to achieve their microenterprise goals. However, it does provide an important tool for reaching to underserved populations and, coupled with sound development policies, it has the capacity to reach and change the lives of many. However, much work is yet to be done. The following paragraphs will outline a series of recommendations to Lane MicroBusiness followed by recommendations suggested by the participants of this study.

Program Recommendations

Employ a Narrowed Focus: As suggested by many researchers on the field, organizations should focus on what they do best. From the qualitative data obtained and the literature reviewed on this study, it is suggested that Lane MicroBusiness should increase one-on-one training and counseling and continue (and if possible increase) the provision of Individuals Development Accounts. Due to the fact that all participants expressed having time constraints and some experienced little or no added value from the classes attended, one-on-one trainings appear to be the most widely used and valued method to assist low-income individuals develop their microenterprise. Evidence suggests that long-term on-call advice is better than general up-front classes and that the risks and problems faced by small businesses are too diverse to predict and address beforehand to prepare for a class (Schreiner and Woller, 2003). In addition, the IDA have been found to be an effective way to increase the economic potential of many low-income individuals. Unlike microcredit loans, IDA persuade individuals to save rather than spend money based on debt. After all, not everyone is credit-worthy or wants debt, but everyone is deposit-worthy and wants savings (Schreiner, 2004).

Develop an Efficient Tracking System: It would be in LMB's best interest to start collecting client information on a uniform basis and develop an efficient client tracking system to achieve certain levels of standardization. This would not only benefit LMB's program, but would also set a standard for other programs in the State. This would also fulfill a need among Microenterprise Development Programs around the country that

could eventually result in better analysis of program services, its impact on its clients and the community as a whole.

Facilitate Group Interaction: Although the content of the classes and the knowledge obtained from them was not deemed as valuable as other services provided by LMB, participants did appreciate the opportunity to interact with their peers and the ability to share ideas, provide support or simply be able to relate to others going through the same process. Participants expressed an interest in having other opportunities to interact with fellow microentrepreneurs, thus it is suggested to facilitate activities to increase interaction among fellow microentrepreneurs such as monthly social activities. In doing so, social capital – defined as shared norms, personal trust and reciprocity, highly valued for community development and relationship building - would increase along with a sense of belonging for many of LMB clients.

Market the Program to Increase Outreach: Lane County is considered to have a medium-high poverty rate. In 2006, approximately 52,000 individuals lived below 100 percent of the poverty level and 8,000 people earned between \$30,000 and \$34,000, which is the amount needed to fulfill the eligibility requirements to receive services from Lane MicroBusiness (American Community Survey, 2006). Therefore, LMB has the opportunity to increase its client base and contribute to the development of the local community. When participants were asked to mention how they learned about LMB, the majority know about LMB and its services from word-of-mouth and only one person attended a class after she saw it advertised through the *Eugene Weekly*, a local newspaper

in Eugene, Oregon. Even though the staff at LMB are extremely busy and overbooked, the outreach potential could help the program increase its funding and thus the capacity to serve more individuals that could be benefited by the services it provides.

Work towards Establishing a Permanent Service Catered to Rural Residents: In rural Oregon communities, one in five jobs is attributed to microenterprises. All of the microentrepreneurs in this study that are located in rural communities expressed the great need to count with a program in their area that provides the same resources and services as LMB. The difficulties of these individuals to constantly travel to Eugene, in addition to the lack of access to financial services catered to low-income individuals, makes a valid ground to asses the potential to establish a permanent resource similar to that located in Eugene.

Participant Recommendations

In addition to the recommendations above, the following is a list of recommendations suggested by the participants of this study based on their experience with the program and their views as former clients and current microentrepreneurs:

Create a Network of Experts from Different Fields, Including Past LMB Clients: Some participants expressed that neither LMB staff nor their classmates could provide valuable input or ideas based on personal and professional experience, and most mentioned it would have been helpful to have experts in the field participate in the program. In addition, other individuals expressed it would be valuable to connect with others that went through a similar process or had a similar business. Most importantly, all

participants were willing to help other fellow LMB clients by acting as mentors and/or providing advice to those needing it. Thus, it would be important to take advantage of this valuable asset and to incorporate local business owners and successful entrepreneurs into a network or mentorship program for current and past clients to use.

Create a Survey to Assess Skill Level and Needs of Future Clients: As previously mentioned in Chapter Four, many individuals felt they already knew a lot of the material covered in class, thus the reason to drop-out or simply “attend for the sake of hours”, as one participant put it. It would be important to consider a preliminary survey or questionnaire in order to learn about individual needs and be able to better cater services to their particular needs.

Develop an Information Packet for Clients “Exiting” LMB: A packet outlining common scenarios, local resources, banks and potential situations that clients are likely to face as they prepare to launch their business would be a tool that would lighten the load of LMB staff and also provide immediate assistance to new or future microentrepreneurs.

Suggestions for Further Research

Although beneficial to some individuals, microenterprise development policies, along with policies that enforce the provision of microfinance services to low-income individuals, find their true effectiveness and impact being questioned by some. Thus, research on this field must continue particularly in Lane County and Oregon, an openly declared microenterprise and small business state. To continue program success and

increase the potential of microentrepreneurs in the local area, the following suggestions for future research must be considered.

1. A continued effort to improve understanding of the market for microenterprises must be reinforced. One of the first steps to increase scale and define the role that the field can reach in Lane County and Oregon is to increase research to understand the supply and demand. This study helps to illustrate aspects of the level of demand such as the products and services preferred and client characteristics. On the other hand much work is needed to define the field's supply, such how many microentrepreneurs need services provided by MDPs and are not able to access them.
2. The lack of a control group in this study affects its ability to generate causality. To effectively assess the efficiency and impact of the program, once LMB has refined their tracking system, it would be extremely valuable to develop a thorough study using an experimental design to accurately assess its impact, justify funding and potentially increase the value of LMB to the local community and the state.
3. The participants in this study were highly receptive to expressing their opinions to a third party aside from LMB staff. It would be valuable to develop an annual assessment of LMB services, possibly through the help of an intern from the Department of Planning Public Policy and Management

at the University of Oregon. This person could continually track the effects of any improvements implemented over the previous year and suggest additional or alternative solutions for the future.

4. To ensure accurate estimates of program benefits and success, it would be advisable to measure both costs and outputs to ensure that development funds are well spent in the future and to identify possible areas that need extra sources of funding as well as those where funds are no longer needed.

APPENDIX A
FOCUS GROUP AND IN-DEPTH INTERVIEW QUESTIONS

1. Why did you choose LMB? How did you hear about it?
2. Why did you decide to become a microentrepreneur and what do/did you seek from becoming a microentrepreneur?
3. What type of business do you have? How big is your business? How many hours a week do you work on your business?
4. Would you consider your business successful?
5. What type of services did you get from LMB? Did these services help you achieve your personal and business goals?
6. What type of changes did you incur after receiving services provided by LMB? i.e. greater profits, stability, assets, etc.
7. What kind of challenges did you experience before and after your association with LMB?
8. Did you experience any sort of personal changes as a result of receiving services from LMB? i.e. greater confidence, self-esteem, skills, education, etc.
9. What were the most difficult obstacles you have faced as a result of being a microentrepreneur? Did LMB help you overcome any of these obstacles?
10. Do you feel you can now manage the business on your own?
11. Do you or anyone else in your household have a regular job or other sources of income in addition to this business? Why/why not?
12. Would you have considered it valuable to have a mentor? Support group?
13. Would you consider your self more bankable after having received loans and established a savings plan?
14. Were you satisfied with the process and/or services received?
15. If you could recommend anything that would potentially change the effectiveness of the program, what would it be?
16. Do you feel you could have accomplished what you have done, up to this point, without the help of LMB?

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